

Adding value through engagement

At Harris | Oakmark, we are active investors. Our approach is built around identifying attractive investment opportunities, building portfolios, and holding substantive, meaningful conversations with company executives and board members at each stage of the investment lifecycle. These engagements focus on what we consider to be the key risks and opportunities facing a business that will determine its ability to create long-term value for our clients as shareholders. We apply the same approach to ESG factors in this context as in our investment research: focusing on materiality to help us make better decisions. Engagements on material ESG and non-ESG factors provide us with a source of insight and a line of communication to management teams that are an important part of our process.

When do we engage?

Annually, we hold several hundred management meetings with C-level executives and board members. Engagement starts at the “idea” stage as we are evaluating a potential investment, when conversations with management teams are part of the due diligence process that helps us decide if a firm meets our investment criteria. A key tool here is the CEO interview: holding a direct, free-flowing discussion with the chief executive of a prospective portfolio company enables us to find out how he or she reacts to unstructured questions on the issues most important to us, outside the context of earnings calls and investor relations talking points. In these interviews, as with all our interactions with senior management, analysts are guided by a few foundational principles. We don’t follow a script, ask questions that have already been answered, or concentrate on refining the inputs for financial models. We do focus on the individual and their motivations, find out about their relationship with the board, and ask open ended questions like “What does success look like?”.

Once an investment has been made, we continue to engage with portfolio companies through the duration of our investment. These ongoing engagements serve two purposes. Firstly, they help our analysts monitor routine questions such as: how is corporate strategy evolving; what is management's view on financial forecasts; and can we detect any change in tone or sentiment from senior executives? Many of these interactions happen at regular intervals throughout the year, such as around earnings releases and in advance of shareholder meetings. Secondly, these lines of communication are invaluable when an issue emerges that may affect our view of the investment. This could include an unexpected merger announcement, an abrupt change of leadership, or a controversy involving an environmental or social issue, necessitating time-sensitive communication with a portfolio company outside of the regular cadence. In these instances, hearing directly from management teams helps us to understand what's going on behind the press releases and news stories that we see.

Who carries out engagement?

We differ from some other asset management firms by not having separate engagement and stewardship teams. Integral to Harris' active and fundamental management style is our belief that engagement and voting should be led by the analysts and portfolio managers who are responsible for carrying out research and making investment decisions. Our Responsible Investing team is an internal resource supporting the investment team in their ESG integration and engagement activities.

Which topics do we engage on?

Harris' engagements are frequently at the highest levels, and in many cases, we meet directly with senior personnel such as the CEO, CFO and board chair. Time spent in these meetings is extremely valuable. While we may have an idea of what the

engagement topics are likely to be ahead of time, our approach is not limited by a pre-defined plan but guided by the simple principle of focusing on what's most material to the company when the meeting takes place. These issues may be purely financial in nature, such as earnings guidance, or material ESG topics such as carbon pricing, human capital management, and director elections. Although the relevance of ESG issues varies widely between companies, we believe that governance is always material, and thus, a key focus for us at both the pre-investment and portfolio company phases of engagement. Issues such as director skill sets, independence, and remuneration are top of mind at all stages of an investment. Whenever an engagement takes place, the issues addressed at each high-value company interaction are what we consider to be the most relevant for us as fiduciaries of our clients' assets.

Advocacy and escalation

Our investment process is geared towards identifying great businesses with great management teams that are undervalued by the stock market, and we never enter an investment with the activist investor's mindset of trying to force a change that will unlock value. However, when we believe that one of our portfolio companies could be doing better on a certain topic, we will use engagement as a lever to advocate for specific actions where we consider this appropriate. We prefer to start these actions through an informal dialogue, but if we do not see the progress we're looking for, we may escalate engagement through other means such as formal letters to a company, voting against directors including the board chair, and voting against other management proposals or in support of shareholder proposals. If a company continues to be misaligned

with its shareholders, Harris may change our view of its investment potential and ultimately divest.

Throughout the investment lifecycle, we believe that our focus on direct engagement can enable us to see what others in the market may not. At the same time, it gives us a voice with management that helps us to create shareholder value for our clients. To us, an investment in a company's stock represents a partnership with its management team, and direct engagement with the members of that team is a crucial part of our process.

Investing involves risk including potential loss of principal. There can be no guarantee that an investment will achieve its objectives or provide positive performance over any period of time. The information, data, analyses and opinions presented herein (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) are for informational purposes only and represent the investments and views of the author and Harris Associates L.P. as of the date written and are subject to change without notice. This content is not a recommendation of or an offer to buy or sell a security and is not warranted to be correct, complete or accurate. The specific securities identified and described in this report do not represent all the securities purchased, sold or recommended to advisory clients. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time one receives this report or that securities sold have not been repurchased. It should not be assumed that any of the securities, transactions or holdings discussed herein were or will prove to be profitable.

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